The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

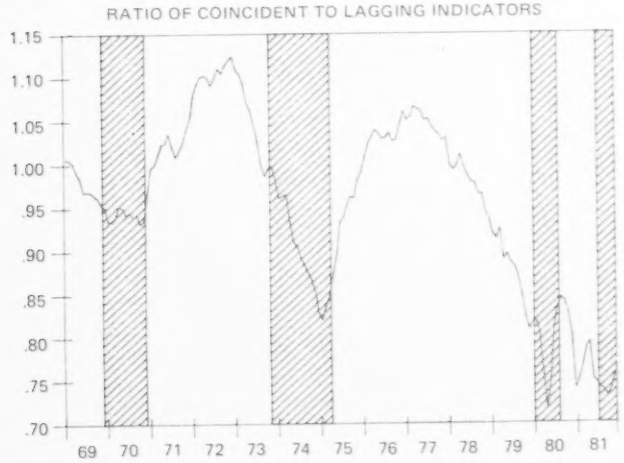
MONDAY, JANUARY 11, 1982 VOLUME XIX, NUMBER 2

B 5350-2

## The Light At The End Of The Tunnel . . .

Some of those who monitor the pulse of the economy have begun to assert that the pace of the decline in economic activity has slowed considerably and that the recovery is not far away. The most common basis for this opinion is the two-month rise in the ratio of coincident to lagging indicators, which followed five months of decline. However, there seem to be other, more important signals which indicate that the slump in business activity may not only continue for several more months—but could get worse before it gets better.

At first glance, the ratio of coincident to lagging indicators appears to have been a reliable indicator of turning points in business cycles (see chart). However, a closer look reveals that during the last




three recessions it registered at least one false start—and the current upturn may be one, too. For example, this ratio turned up three months after the start of the 1969-70 recession, and continued rising for two months before zigzagging downward for another six months. Similarly, during the 1973-75 downturn, there were two false starts in this indicator. In 1980, it rose for two months at the beginning of the recession—only to fall again for the next three months. Finally, the ratio dropped sharply following the end of that recession, although the economy expanded for a full year.

## . . . May Be An Oncoming Locomotive

Consumers and manufacturers alike feel that the recession is worsening. The December survey of the purchasing managers of 225 large manufacturing companies revealed the widest production cutbacks since the depths of the 1980 recession. Almost one-half reported lower production in December, up from 40 per cent in November. The number of managers reporting shrinking employment at their plants rose to 41 per cent from 36 per cent in the previous month. Consumer spirits, measured by the Conference Board sagged for the fourth consecutive month in December, falling by 25 points since August. More and more people think that business conditions are poor and are increasingly concerned about their jobs—not surprising, in view of the 0.5 point jump in the jobless rate last month to 8.9 per cent.

Despite this growing uneasiness, the buying plans index, which measures consumers' intentions to purchase new homes, new or used cars, large appliances or home furnishings, moved up for the second month in a row. However, nearly 60 per cent of the upturn was due to plans to buy major appliances while the other series remained relatively unchanged. Virtually every appliance category posted an increase, with the biggest gains registered by refrigerators, washing machines and driers, ranges, color TV sets and air conditioners. Since home-buying plans remained unchanged, the increase in intended purchases of appliances seems to indicate consumers' decisions to upgrade their existing homes. Plans to buy an automobile—new or used—inched ahead only slightly, while intentions to travel by automobile declined once again.

A glance at many weekly and monthly statistics suggests that the economy continued to contract rapidly in December, with the pace exceeding that registered at the start of the fourth quarter. Most importantly, new domestic car sales plunged in December, posting the worst ten-day totals in many years. In fact, the seasonally adjusted number of cars sold during the last ten-day selling period was down one-third from a year ago and was the lowest for this holiday period in at least two decades. For all of December, the seasonally adjusted annual sales

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rate of 4.96 million was 7.4 per cent lower than in November and the lowest since 1970, when sales were curtailed by the strike at General Motors.

### Housing And Autos Are Still Falling . . .

What is more, new car inventories rose to 83 days' supply on December 1—the highest ever for that date. In response, manufacturers cut production by almost 28 per cent, year-over-year, during the first three weeks of December. Furthermore, January production was slated at 373,361 units, down 13.6 per cent from the year before. However, these schedules were prepared in mid-December, before the disastrously low sales volume of the last two ten-day selling periods was known, suggesting that first-quarter 1982 production may be slashed even more than originally planned.

Total retail sales were also weak, despite the sizable markdowns taken prematurely by retailers. Seeing a poor start of the Christmas selling season, many merchants slashed prices as early as in late November, to entice shoppers into their stores. This not only cut sharply into their earnings, but some of the volume may well have been borrowed from January's sales as people took advantage of pre-holiday discounts, thus did not have to wait for post-Christmas clearances.

Although privately owned housing units were

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 12/30/81 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 138.778 | – .053 | +12.333 |
| Loans to Depository Inst. | .883 | + .262 | - .744 |
| Float | 3.792 | – .224 | – 5.257 |
| Total Reserve Bank Credit | 153.482 | + .088 | + 7.625 |
| Treasury Deposits with Federal Reserve Banks | 2.912 | – .303 | – .374 |
| Currency Outside Banks | 129.233 | + .301 | + 5.975 |
| Member Bank Reserves: | | | |
| Required | 42.031 | + .310 | + 1.473 |
| Excess (Deficiency) | .618 | + .243 | + .122 |
| Total Reserves Held | 42.649 | + .553 | + 1.595 |
| Net Borrowed Reserves | .190 | + .014 | – .825 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 95.122 | – 1.225 | + 2.159 |

| Monetary Aggregates † | | % Change Since Three Months Ago* | % Change Since Year Ago |
|---|---|---|---|
| M1-B | 440.4 | + 8.8‡ | + 6.4‡ |
| M2 (November '81) | 1,824.7 | + 10.7 | + 9.4 |
| M3 (November '81) | 2,168.4 | + 9.6 | + 11.1 |
| L (September '81) | 2,574.4 | + 11.4 | + 11.5 |

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

## New York Money Market

| Offering Rates 1/8/82 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 11.25% | 12.00% | 12.00% |
| * Federal Agencies | 12.00 | 12.90 | 13.25 |
| * Project Notes–Taxfree (46% Taxable Equivalent) | 11.57 | 13.70 | NA |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market–Prime | 12.70 | 13.50 | 15.25 |

‡Finance Company Paper–Prime

| | |
|---|---|
| 5- 14 days | 11.75% |
| 15- 29 days | 12.25 |
| 30- 59 days | 12.13 |
| 60- 89 days | 12.13 |
| 90-179 days | 12.13 |
| 180-239 days | 11.13 |
| 240-270 days | 10.00 |

‡* Bankers' Acceptances

| | |
|---|---|
| Feb. | 12.20% |
| Mar. | 12.20 |
| Apr. | 12.25 |
| May | 12.65 |
| Jun. | 12.65 |
| Jul. | 12.65 |

‡Industrial Paper–Prime

| | |
|---|---|
| 30- 89 days | 12.13% |
| 90-120 days | 12.25 |

†Federal Funds Effective Rate 12.05%

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'81 | $ 2,965 | $ 2,886 | $ 2,637 |
| Gross National Product (1972 Dollars)* | 3rd Q'81 | $ 1,516 | $ 1,510 | $ 1,472 |
| Percent Change, Annual Rate | 3rd Q'81 | 1.4 | – 1.6 | 2.4 |
| Change in Consumer Prices (all urban consumers)* | Nov '81 | 6.0% | 4.8% | 13.2% |
| Change in Producer Prices* | Nov '81 | 6.0% | 7.2% | 8.4% |
| Civilian Employment (Thousands of Persons)† | Dec '81n | 97,188 | 98,025 | 97,282 |
| Unemployment as % of Civilian Labor Force† | Dec '81n | 8.9% | 8.4% | 7.4% |
| Personal Income* | Nov '81 | $ 2,489 | $ 2,475 | $ 2,258 |
| Leading Indicators Composite Index (1967=100)† | Nov '81n | 127.8 | 128.2 | 136.5 |
| Industrial Production Index (1967=100) † | Nov '81 | 146.5 | 149.6 | 149.2 |
| Net Change in Consumer Installment Credit† | Oct '81 | $ 1.01 | $ 2.82 | $ 0.70 |
| U.S. Merchandise Trade Balance † | Nov '81n | –$ 3.40 | –$ 4.19 | –$ 1.15 |
| Plant and Equipment Expenditures* | 1st Q'82 | $345.46(a) | $332.69(a) | $312.24 |
| Private Housing Starts (Thousands of Units)* | Nov '81 | 871 | 864 | 1,550 |
| New Construction Expenditures* | Nov '81n | $ 230.3 | $ 229.8 | $ 234.3 |
| Total Business Inventories† | Oct '81 | $ 513.0 | $ 508.1 | $ 473.6 |
| Total Business Sales† | Oct '81 | $ 345.5 | $ 353.7 | $ 335.9 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

started in November at a seasonally adjusted annual rate 0.7 per cent higher than in October, builders did not actually experience any increase in construction activity. In fact, actual housing starts fell 25 per cent from the previous month and were almost 43 per cent below the year-ago level. The seasonal factors used to adjust these numbers become disproportionately large during the winter season as construction typically slows due to the cold weather. Building permits for new housing construction declined by 0.6 per cent from the previous month, standing nearly 45 per cent below year-earlier levels.

Whether seasonally adjusted or not, these housing numbers portend further weakness for the construction sector in the near future. What is more, the ongoing depressed condition of the housing and auto sectors presages declines in activity for many other "downstream" industries and precludes their recovery anytime soon.

### . . . As Are Many Other Industries

For example, year-to-year comparisons of steel production, which became slightly negative in mid-October following nine months of increases, turned into a 25 per cent decline in December. Declines in the output of paperboard also widened toward yearend. In October, production of paperboard dropped 2.3 per cent below the October,

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Negotiable Time CD's Weekly Reporting Banks** | | | |
| Nationwide (12/23/81) | 137,033 | + 2,078 | +21,589 |
| New York City (12/23/81) | 34,835 | + 258 | + 6,252 |
| **Commercial Paper** (12/23/81) | 165,479 | – 473 | +43,027 |

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/23/81) | 192,542 | – 1,017 | +19,517 |
| New York City (12/23/81) | 54,994 | – 92 | + 4,240 |

**Total Loans Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/23/81) | 469,018 | – 519 | +39,158 |
| New York City (12/23/81) | 111,208 | – 325 | + 9,949 |

## Financial Markets

| | Friday 1/8/82 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 11.95% | + .86 | – 4.05 |
| 180-Day Bills† | 13.20 | + 1.40 | – 2.40 |
| Longest Bills† | 13.67 | + .39 | – .61 |
| **Recent Issues:** | | | |
| 13s 12/31/83 | 14.08 | + .14 | |
| 14 1/8s 12/31/85 | 14.40 | + .66 | |
| 14 1/4s 11/15/91 | 14.40 | + .36 | |
| 14s 11/15/11 | 14.05 | + .57 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (1/7/82) | 13.36% | + .06 | + 3.87 |
| Blue List Total ($ Million) | $1,042 | – $178 | + $ 436 |
| 30-Day Visible Supply ($ Million) | $2,120 | + $311 | + $1,238 |
| Total | $3,162 | + $133 | + $1,674 |
| **Corporates:** | | | |
| Moody's Aa Composite (1/7/82) | 15.65% | + .24 | + 2.30 |
| 30-Day Visible Supply ($ Million) | $8,992 | – $ 20 | + $5,300 |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 866.53 | – 8.47 | – 102.16 |
| Transportation | 368.67 | – 11.63 | – 16.15 |
| Utilities | 107.68 | – 1.34 | – 5.21 |
| 65 Stocks | 341.99 | – 5.81 | – 27.78 |
| **Standard and Poor's 500 Stocks** | 119.55 | – 3.00 | – 13.93 |
| **N.Y.S.E. Composite Index** | 69.36 | – 1.75 | – 7.08 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 44,302 | + 7,462 | – 20,832 |

* 46% Taxable equivalent 24.74%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 1/8/82 | Week Ago |
|---|---|---|
| Overnight | 12.25% | 13.50% |
| 1 month | 13.13 | 13.19 |
| 3 month | 13.63 | 13.75 |
| 6 month | 14.56 | 14.75 |
| 1 year | 14.56 | 14.75 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 14.85% | 14.65% |
| Long Term (7 to 15 yrs.) | 15.20 | 15.10 |

| FOREIGN EXCHANGE SPOT RATES New York Opening (1/8/82) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .02597 | 38.51 |
| Canada | .8425 | 1.1869 |
| Denmark | .1357 | 7.3693 |
| France | .1742 | 5.7405 |
| Germany | .4424 | 2.2605 |
| Italy | .0008264 | 1210.10 |
| Japan | .004512 | 221.65 |
| Mexico | .03789 | 26.39 |
| Netherlands | .4031 | 2.4805 |
| Switzerland | .5468 | 1.8288 |
| U.K. | 1.9152 | .5221 |

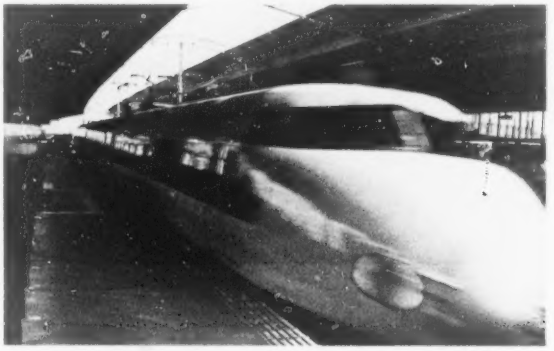
1980 level; by December, output slumped by 6.5 per cent compared with the year before. Despite the reduction in output, inventories at box plants soared and in November they were 26 per cent above their year-earlier level.

Reflecting the declines in production and demand, the need for transportation has also diminished. Shipping by railroads has been declining since early August. In December, 1981, the number of railroad cars loaded (excluding sharply fluctuating grain and coal shipments) was 18 per cent lower than in 1980, following a 14.6 per cent reduction in the previous month. Similarly, hauling by trucks has showed intensifying declines in recent months.

Demand for other metals has also fallen considerably while inventories at the producer and consumer levels soared, causing sharp cutbacks in operating rates. As a result, prices plummeted, adversely affecting industry profits. Nonferrous metal production was down in 1981 from 1980 in all areas except for copper where second-half comparisons were favorable because of a three-month strike in the summer of 1980. As the cost of extraction of some metals began to exceed the selling price, producers responded with increasing layoffs, mine shutdowns and deferred capital spending projects.

For example, the aluminum industry has been posting lower earnings since mid-1980. Primary aluminum production picked up in early 1981 as the economy expanded, but it started to descend again in June. During the three months ending in November, 1981, output was running more than ten per cent below the 1980 depressed level. What is more, new orders, which have been sagging since January, have disappeared even faster—falling 36 per cent in November, month-over-month, and slipping 31 per cent below year-ago levels.

Lead prices have fallen precipitously over the past year, but the decline intensified in the past five months as the demand for batteries dried up with the decline in auto production. Lead prices are currently about 20 per cent lower than they were a year ago. The only hope for battery makers, and thus the market for lead, is for a very cold winter which would take its toll on car batteries installed several winters ago and rejuvenate the demand for replacement batteries. The other big market for lead—anti-knock additives for gasoline which account for about ten per cent of consumption—has been in a protracted decline as the use of regular gasoline declines and the share of lead-free expands every year. ■

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